MATRIX INVESTMENTS LIMITED
ANNUAL REPORT • 1987

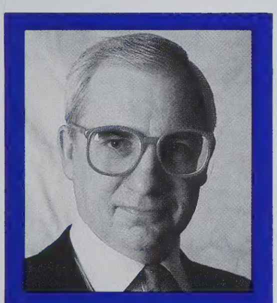
Contents

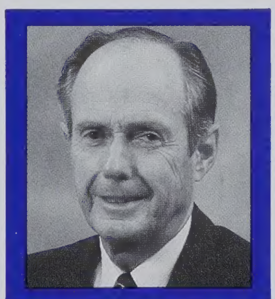
Message from the Chairman

The year under review was one in which the company experienced the demise of its major shareholder and accordingly, the resulting uncertainty over several months may have reflected some reduced sales by our major subsidiary, Drummond Brewing Company Ltd. Of course, for our shareholders, the foregoing together with the dramatic downturn in stock prices in October saw the value of Matrix shares drop to something less than book value.

Despite the foregoing, I am pleased to report that operationally, and financially, the company remains strong. It is a credit to our people that revenues for the year under review have increased. We are also most appreciative of the support of our customers who have recognized "Alberta Gold — Ice Cold" as an excellent product and who know of our dedication to quality and service.

In terms of overall revenue, the year has been satisfactory. Competition in the brewing business has escalated, resulting in overall net income of $428,615, some $178,727 lower than in 1986. However, particular attention is being paid to costs and more favourable results are forecast for 1988.


Terry R. Myers


W. Paul Lefaivre

Overall, there are important indicators of strength in Matrix. Our new President is displaying strong leadership and a totally new business plan has been developed. The head office of Matrix has been relocated to Red Deer; at Drummond Brewing Company Ltd., a leaner team focuses on our strengths and is committed to a solid plan.

The Energy Resource Division revenues have increased some 44% over 1986 and are expected to increase substantially again in 1988. Our land position remains strong and an aggressive development plan is underway for 1988.

We are in the fortunate position of having substantial cash resources which for the present are conservatively and safely invested. This pool of funds is available to support initiatives in the brewery and/or resource development and if the opportunity presents itself, we would endeavour to take advantage of some exceptional acquisition.

There were a number of changes in the Board of Directors in the latter part of the year and on September 18, 1987 Mr. Terry R. Myers was appointed Chief Operating Officer. He was subsequently appointed President on December 14, 1987.

As your Chairman, it has been important to me to pause and reflect on the events of the past year, and to perhaps crystallize for you my thoughts regarding the future. They are these: in order for a company to thrive, it must focus on the customer, on quality and service, a commitment to its people, first class leadership and dedication by its Board of Directors, and staff to produce the best results possible for its shareholders, consistent of course with being good corporate citizens at all times. What I have observed first hand over the past number of months gives me confidence we have such a company.

W. Paul Lefaivre
Mar 04, 1988

Drummond Brewing Company Ltd.

"We're brewing a great beer — right here!" Drummond entered its second year in the Alberta market, further establishing itself as a credible brewer of fine products!

Overall revenues increased in 1987 but net profits are down. Across Canada the beer industry remains flat and Alberta's tentative emergence from recession has kept beer sales down from last year.

Nonetheless, Drummond has found areas of opportunity. The advertising theme introduced the province to "Alberta Gold — Ice Cold", and was well supported with Drummond posters, signage and other point of sale materials. A full line of souvenir items including hats, coolers and clothing has also been created to rave reviews.

The brewery continued to improve its efficiency and reduce its costs, and new labelling and conveying equipment was installed.

A major three-year agreement with our employees ensures our customers uninterrupted supply of our products.

Drummond's highly popular and competitively priced generic beers enjoyed continued popularity and a growing share of the market.

Drummond Premium and Drummond Light are finding growing acceptance with Alberta's consumers, and of course, Drummond continued to be Alberta's #1 supplier of quality draught beer to Alberta's hospitality industry.

Our program is truly exciting as the Drummond success story continues to unfold. The rationalization of the brewing industry in Canada should create opportunities for Drummond in the days ahead. Our corporate presence in the community is building. The management team has been centralized to the brewing location, resulting in some overhead reductions, and helping us effectively plan and budget for 1988, a year filled with opportunities and challenges. An exciting and aggressive marketing program should see further increased market share and a positive contribution to Matrix profitability.


Brewed with Care.
PREMIUM LAGER
Drummond
341 ml
Brewed with Care
Fully Aged
UNION MADE
BEER - BIÈRE
Alberta gold. Ice cold.
PREMIUM LAGER
Drummond
LIGHT
355 ml
UNION MADE
PREMIUM LAGER
Drummond
Brewed with Care
Fully Aged
BEER · BIÈRE
DRUMMOND BREWING COMPANY LTD. • CALGARY
355 ml
UNION MADE
5% alc./vol.

Energy Resources Division

The Energy Resource Division continued to add significantly to its production rates and reserve figures for the fiscal year. An active exploration and development program was sustained as a result of the increase and stabilization of oil prices. Gas prices, however, remained low but in the case of the South Edson production the high condensate content of the gas makes development of this area attractive.

Matrix continued to acquire land in highly prospective areas and let leases expire in less attractive areas. Efforts to drill or farmout expiring leases in promising areas will continue to be a priority in the 1988 fiscal year. All of the Company's activity is in Alberta.

Drilling Program

The Company participated in the drilling of seven wells during the year. Three wells in the South Edson area were completed as gas and condensate producers, two wells in the Sundre-Caroline area were completed as oil producers and two wells were dry holes. This results in a success ratio of 71%.

Land

The Company's gross acreage position declined from 84,000 acres to 60,650 acres at the end of the year. This is largely due to the expiry of wildcat leases which are remote and not accessible to pipelines. Approximately 44,800 lease acres are undeveloped. The term on a number of these leases has been extended due to proximity to proven reserves and will be developed when economic conditions warrant.

Matrix Lease Position

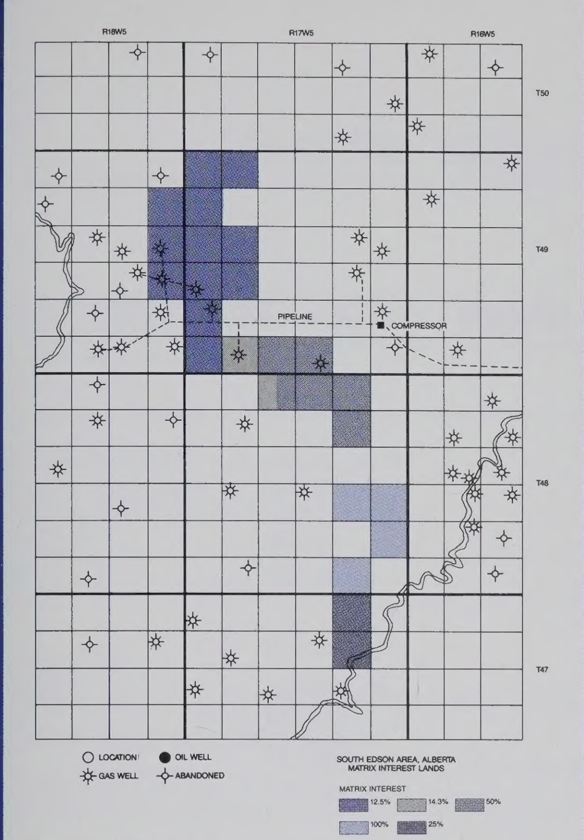
	Developed	Undeveloped	Total
Gross Acres	15,850	44,800	60,650
Net Acres	1,650	14,050	15,700
Average Interest	10.5%	31%	26%

A new lease acquisition in the South Edson area was made adding 1,280 acres to the gross land position.

	1986	1987	Increase
Proven — Developed			
Oil Reserves	31,800 bbl	37,800 bbl	19%
Gas Liquids	72,400 bbl	177,500 bbl	145%
Gas Reserves	1,105 MMCF	2,352 MMCF	113%
Oil Production	18 bbl/day at year end	30 bbl/day at year end	66%
Gas Liquids	15 bbl/day at year end	45 bbl/day at year end	200%
Gas Production	170 MCF at year end	460 MCF at year end	170%

At South Edson two additional wells will be tied in soon and the addition of a planned compressor should add to the delivered volumes.

A great deal of the Company's activity and expenditures is concentrated in the South Edson area which contributes a larqle portion of the Energy Division's revenue and reserves.



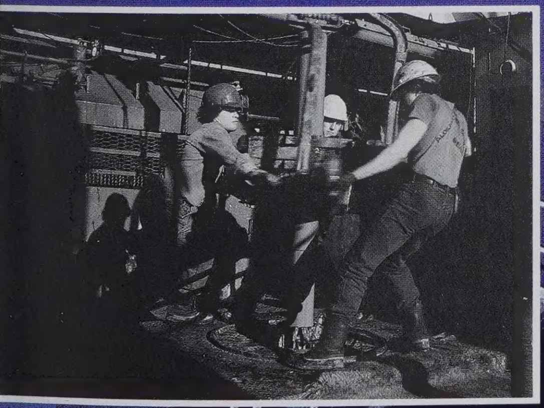
South Edson Area

Matrix holds an interest in 16,000 gross and 5,737 net lease acres containing rights to all formations. Five Cardium gas and condensate wells have been completed with three on production and two scheduled to be tied-in as soon as equipment is available.

The gas is transported through a pipeline system, in which Matrix has a working interest, to a compressor station and then to the Peco Gas Plant for processing. Plans are underway to install a second compressor to increase production on existing wells and to accommodate new production in the area.

A continued drilling program is planned for the area and will result in the expenditure of a large portion of the drilling budget. The area is attractive due to the high liquids content of the gas.

An attempt to complete the Viking zone in the OIL 38 Edson 7-3-49-17 W5M well was made with encouraging results. The well however, has been temporarily suspended due to downhole problems. Studies for a future rework are being done. Matrix has a 50% interest in the project.



Balance Sheet

MATRIX INVESTMENTS LIMITED
CONSOLIDATED BALANCE SHEET
OCTOBER 31, 1987

	1987	1986
ASSETS		
CURRENT ASSETS		
Cash and term deposits	$ 2,724,752	$ 9,109
Accounts receivable	1,229,988	1,237,168
Inventory	1,201,872	1,601,883
Prepaid expenses	52,445	76,069
	5,209,057	2,924,229
MARKETABLE SECURITIES	–	3,705,593
NATURAL RESOURCE PROPERTIES (Note 2)	6,432,111	6,193,386
PROPERTY, PLANT AND EQUIPMENT (Note 3)	10,348,604	11,408,154
LAND HELD FOR RESALE	799,861	901,675
OTHER ASSETS	558,122	563,079
	$23,347,755	$25,696,116
LIABILITIES		
CURRENT LIABILITIES		
Bank indebtedness (Note 4)	$ 451,021	$ 745,605
Accounts payable and accrued charges	1,896,788	1,730,880
Current portion of long-term debt	634,730	847,790
Shareholders' loans	273,093	509,592
	3,255,632	3,833,867
LONG-TERM DEBT (Note 5)	284,102	2,555,481
OTHER	72,638	–
	3,612,372	6,389,348
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 6)	18,851,158	18,851,158
RETAINED EARNINGS	884,225	455,610
	19,735,383	19,306,768
	$23,347,755	$25,696,116

Approved by the Board:

W. Paul Lefaivre .... Director

Jack E. Baker .... Director

Auditors' Report

**To the Shareholders of
Matrix Investments Limited**

We have examined the consolidated balance sheet of Matrix Investments Limited as at October 31, 1987 and the consolidated statements of income and retained earnings and of changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at October 31, 1987 and the changes in its financial position for the year then ended in accordancce with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

DELOITTE HASKINS & SELLS (signed)
Chartered Accountants
February 5, 1988

Income Statement

MATRIX INVESTMENTS LIMITED
CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS
YEAR ENDED OCTOBER 31, 1987

	1987	1986
REVENUE		
Brewery products	$15,490,067	$13,563,635
Less sales and excise tax	(4,518,013)	(3,934,570)
Oil and gas sales	572,693	396,129
Investment and other	1,014,871	392,594
	12,559,618	10,417,788
OPERATING COSTS		
Brewery cost of sales	4,943,877	4,434,004
Marketing, distribution and administration	5,091,964	3,664,277
Oil and gas	225,839	164,930
Interest	435,253	278,036
Depreciation and depletion	1,434,070	1,268,999
	12,131,003	9,810,246
NET INCOME	428,615	607,542
RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR	455,610	(151,932)
RETAINED EARNINGS, END OF YEAR	$ 884,225	$ 455,610
EARNINGS PER SHARE	1 cent	1 cent

Statement of Change

MATRIX INVESTMENTS LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED OCTOBER 31, 1987

	1987	1986
CASH FROM OPERATIONS		
Net income	$ 428,615	$ 607,542
Depreciation and depletion	1,434,070	1,268,999
Amortization of product development costs	183,780	98,170
Net change in non-cash working capital	596,723	(679,003)
Gain on sale of marketable securities	(913,943)	–
Loss on sale of equipment	25,000	–
Cash from operations	1,754,245	1,295,708
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		
(Decrease) increase in long-term debt	(2,484,439)	3,403,271
(Decrease) increase in shareholders' loans	(236,499)	407,480
Issuance of share capital	–	17,657,400
Other	72,638	–
Cash (used in) provided by financing	(2,648,300)	21,468,151
CASH PROVIDED BY (USED IN) INVESTMENT ACTIVITIES		
Natural resource properties	(614,289)	(5,354,984)
Property, plant and equipment	(23,956)	(12,375,804)
Land held for resale	101,814	(901,675)
Proceeds on sale of marketable securities	7,727,776	–
Purchase of marketable securities	(3,108,240)	(3,705,593)
Acquisition of non-cash working capital	–	(509,682)
Other assets	(178,823)	(652,694)
Cash provide by (used in) investment	3,904,282	(23,500,432)
NET INCREASES (DECREASE) IN CASH	3,010,227	(736,573)
(BANK INDEBTEDNESS) CASH, BEGINNING OF YEAR	(736,496)	77
CASH (BANK INDEBTEDNESS), END OF YEAR	$ 2,273,731	$ (736,496)
CASH (BANK INDEBTEDNESS) IS COMPRISED OF		
Cash	$2,724,752	$ 9,109
Bank indebtedness	(451,021)	(745,605)
	$ 2,273,731	$ (736,496)

Financial Notes

MATRIX INVESTMENTS LIMITED
NOTES TO THE CONSOLIDATED STATEMENTS
OCTOBER 31, 1987

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles, and reflect the following policies:

Principles of consolidation

The consolidated financial statements include the accounts and operations of the company and of the wholly-owned subsidiary, Drummond Brewing Company Ltd. from the date of acquisition, December 1, 1985.

Inventory

Finished goods are valued at the lower of cost and net realizable value. Work in process and raw materials, excluding returnable containers, are valued at the lower of cost and replacement cost. Returnable containers are valued at amortized cost, which is lower than new replacement cost.

Oil and gas properties

The company follows the full-cost method of accounting whereby all exploration and development costs are capitalized and are then depleted using the unit-of-production method based upon estimated proven reserves, net of royalty payments. Reserves are converted to equivalent units using energy content and pricing factors in existence at October 31, 1987. Petroleum incentive payments, investment tax credits and other government incentives are applied against the cost of oil and gas properties.

The company applies a "ceiling test" to capitalized costs to ensure that such costs do not exceed the estimated value of the future net revenues from proven reserves. Prices used in calculating these net revenues are current market prices at October 31, 1987. Any capitalized costs in excess of the future net revenues are charged to earnings.

Mining properties

Acquisition and exploration costs of mining properties are capitalized and will be depleted on a unit-of-production basis when production commences. Realization of these costs is dependent upon discovery of ore bodies in commercial quantities or profitable disposition of the properties. To date these properties are substantially unexplored.

Property, plant and equipment

Property, plant and equipment are stated at cost less government grants received. Buildings, machinery and equipment, furniture, fixtures and vehicles are depreciated on the straight-line method at rates calculated to amortize the cost of the assets, less salvage value, over their estimated useful lives. Leasehold improvements are amortized using the straight-line basis over the terms of the respective leases.

Land held for resale

Land held for resale is valued at cost which approximates net realizable value.

Product development costs

Costs incurred in the development and marketing of the new line of brewery products have been capitalized and are amortized on a straight-line basis over three years commencing with the initial sales date of the products.

Income taxes

The company follows the tax allocation method of accounting for income taxes. Under this method, deferred income taxes are recorded to the extent that income taxes, otherwise payable, are deferred by claiming capital cost allowances and exploration and development costs in excess of the depletion and depreciation provisions.

2. NATURAL RESOURCE PROPERTIES

	1987			1986
	Cost	Accumulated Depletion	Net Book Value	Net Book Value
Oil and gas properties	$7,023,811	$670,794	$6,353,017	$6,114,292
Mining properties	79,094	–	79,094	79,094
	$7,102,905	$670,794	$6,432,111	$6,193,386

Costs associated with the acquisition and evaluation of unproved properties excluded from the depletion calculation are $1,702,794 (1986 - $1,899,121).

3. PROPERTY, PLANT AND EQUIPMENT

	1987			1986	
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value	Depreciation Rates
Buildings	$ 3,162,969	$ 445,255	$ 2,717,714	$ 2,859,023	20 years
Machinery and equipment	8,754,549	2,246,207	6,508,342	7,419,983	10 years
Leasehold improvements	186,048	83,759	102,289	104,442	Term of lease
Land	1,020,259	–	1,020,259	1,024,705	
	$13,123,825	$2,775,221	$10,348,604	$11,408,154	

Netted against the cost of property, plant and equipment are government grants totalling $394,184, which may be repayable if the company cannot meet certain conditions concerning insurance of assets, maintenance of equity over a 2 year period commencing August 31, 1987.

Financial Notes

4. BANK INDEBTEDNESS

	1987	1986
Operating line of credit	$300,000	$495,000
Cheques issued in excess of bank balance	151,020	250,605
	$451,020	$745,605

Bank indebtedness is secured by a first charge on the company's property, plant and equipment, by a $1,500,000 floating charge debenture and by a general assignment of book debts.

5. LONG-TERM DEBT

	1987	1986
Demand bank loans at rate of prime plus ½ of 1% and prime plus 1%, maturing in March 1988, April 1988 and June 1989, secured as outlined in Note 4 and by certain oil and gas properties	$895,852	$1,463,339
Brokers Margin account at prime plus ½ of 1%, secured by a pledge of the marketable securities	–	1,888,704
Finance contracts	22,980	51,228
	918,832	3,403,271
Less amounts due within one year	634,730	847,790
	$284,102	$2,555,481

Principal amounts due in each of the next two years are:

1988 $634,730
1989 $284,102

6. SHARE CAPITAL

	1987	1986
Authorized - unlimited number of common shares without par value		
Issued – 61,801,278 common shares	$18,851,158	$18,851,158

7. LEASE COMMITMENTS

The company's lease arrangements have remaining terms of three and four years with aggregate minimum annual rental of approximately $305,144.

8. INCOME TAXES

The provision for income taxes has been determined as follows:

	1987	1986
Combined basic federal and provincial income tax rate, including surcharge	51%	49%
Decreased by		
Non-taxable capital gains	(51)	(8)
Application of previously unrecognized deferred tax debits brought forward from prior year	–	(40)
Net resource related deductions	–	(1)
	–%	–%

In addition, there are unrecognized deferred tax debits of $173,250 as at October 31, 1987 that are available for reduction of future years' taxable incomes.

9. BUSINESS SEGMENT INFORMATION

	Depreciation and Depletion	Net Sales	Contribution	Assets Employed
Brewery	$1,055,808	$10,972,054	$693,014	$14,239,527
Energy resources	378,262	572,693	(463,826)	6,821,271
Investments	–	1,014,871	813,180	2,286,957
	$1,434,070	$12,559,618	1,042,368	$23,347,755
Interest			(435,253)	
Unallocated administrative expenses			(178,500)	
Net income			$428,615	

10. RELATED PARTY TRANSACTIONS

During the year, the company received management fees from an affiliated company totalling $99,000.

11. REMUNERATION OF DIRECTORS AND OFFICERS

During the year the total remuneration paid to the company's directors was $17,903 and to senior officers was $178,500.

12. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the current year's presentation.

Corporate Offices
2210 Gaetz Avenue
Red Deer, Alberta T4R 1W5
Phone: (403) 347-6633

Energy Resources Division
Suite 490 Joffre Place
708 – 11th Avenue S.W.
Calgary, Alberta T2R 0E4
Phone: (403) 262-4634

Drummond Brewing Company Ltd.
2210 Gaetz Avenue
Red Deer, Alberta T4R 1W5
Phone: (403) 347-6633

DIRECTORS:
J. Stephens Allan
Jack E. Baker ★ ●
David G. Finlay ●
W. Paul Lefaivre ☆ ★ ●
Lynn A. Patrick
Robert G. Pearce ★
Christa V. Petracca
James Thomson

☆ *Chairman*
★ *Member of Executive Committee*
● *Member of Audit Committee*

OFFICERS:
Terry R. Myers
President
William Slemko
Vice-President
Lynn A. Patrick
Secretary

INVESTORS' GUIDE:

Stock Listing
Alberta Stock Exchange,
Common Shares,
Symbol 'MXI'

Transfer Agent & Registrar
The Canada Trust Company
505 – 3rd Street S.W.
Box 2523, Station M
Calgary, ALberta T2P 3Y8

AUDITORS:
Deloitte Haskins & Sells
Chartered Accountants